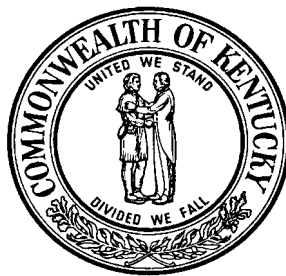


**REPORT OF THE AUDIT OF THE
ESTILL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Wallace Taylor, Estill County Judge/Executive

Members of the Estill County Fiscal Court

The enclosed report prepared by Simon, Underwood, & Associates, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Estill County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements.

We engaged Simon, Underwood, & Associates, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Simon, Underwood, & Associates, PSC evaluated Estill County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Pubic Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ESTILL COUNTY FISCAL COURT

June 30, 2009

Simon, Underwood & Associates PSC has completed the audit of the Estill County Fiscal Court for the fiscal year ended June 30, 2009.

We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Estill County, Kentucky. We have also issued an unqualified opinion on Estill County's compliance with requirements applicable to its major federal program: Chemical Stockpile Emergency Preparedness Program (CFDA #97.040).

Financial Condition:

The fiscal court had total net assets of \$6,594,914 as of June 30, 2009. In its governmental activities, fiscal court had unrestricted net assets of \$237,884 with total net assets of \$6,590,903 as of June 30, 2009. The business-type activities had total net assets of \$4,011. The fiscal court had total debt principal as of June 30, 2009 of \$990,209 with \$244,216 due within the next year.

Report Comments:

- 2009-1 The Fiscal Court Did Not Account For Encumbrances And Unpaid Obligations
- 2009-2 The Fiscal Court Did Not Approve A Salary Schedule
- 2009-3 The Fiscal Court Lacks Adequate Segregation Of Duties For Occupational Tax Collections
- 2009-4 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts
- 2009-5 The Fiscal Court's Interfund Transfers Did Not Agree To Approved Amounts
- 2009-6 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically
- 2009-7 The Fiscal Court Did Not Make Timely Payments To Vendors And Did Not Approve Grant Expenditures Properly
- 2009-8 The Fiscal Court Should Improve Controls Over Grants

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
ESTILL COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS.....	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	23
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	27
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	31
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS	35
NOTES TO FINANCIAL STATEMENTS	37
BUDGETARY COMPARISON SCHEDULES	53
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	58
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	60
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	64
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	69
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	70
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	73
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	77
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	81
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



*Simon,
Underwood &
Associates* PSC

Certified Public Accountants and Consultants

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Wallace Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Estill County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Estill County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Estill County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Estill County, Kentucky, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

To the People of Kentucky
 Honorable Steven L. Beshear, Governor
 Jonathan Miller, Secretary
 Finance and Administration Cabinet
 Honorable Wallace Taylor, Estill County Judge/Executive
 Members of the Estill County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Estill County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 30, 2009 on our consideration of Estill County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- 2009-1 The Fiscal Court Did Not Account For Encumbrances And Unpaid Obligations
- 2009-2 The Fiscal Court Did Not Approve A Salary Schedule
- 2009-3 The Fiscal Court Lacks Adequate Segregation Of Duties For Occupational Tax Collections
- 2009-4 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts
- 2009-5 The Fiscal Court's Interfund Transfers Did Not Agree To Approved Amounts
- 2009-6 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically
- 2009-7 The Fiscal Court Did Not Make Timely Payments To Vendors And Did Not Approve Grant Expenditures Properly
- 2009-8 The Fiscal Court Should Improve Controls Over Grants

Simon, Underwood & Associates PSC

November 30, 2009

ESTILL COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

Wallace Taylor	County Judge/Executive
Greg Hall	Magistrate
Darrell Johnson	Magistrate
Gerald Rader	Magistrate

Other Elected Officials:

Rodney Davis	County Attorney
Jim Morriss	Jailer
Sherry Fox	County Clerk
Charlene Baker	Circuit Court Clerk
Gary Freeman	Sheriff
Jeff Hix	Property Valuation Administrator
Tony Murphy	Coroner

Appointed Personnel:

Teresa Sparks	Deputy County Judge/Executive
Laura Ann Rogers	County Treasurer
Laura Ann Rogers	Occupational Tax Collector
Christine Brandenburg	Finance Officer

THIS PAGE LEFT BLANK INTENTIONALLY

ESTILL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

ESTILL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 237,884	\$ 4,011	\$ 241,895
Total Current Assets	<u>237,884</u>	<u>4,011</u>	<u>241,895</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	661,953		661,953
Land and Land Improvements	645,000		645,000
Buildings	1,915,177		1,915,177
Equipment	1,180,818		1,180,818
Vehicles	611,442		611,442
Infrastructure	2,328,838		2,328,838
Total Noncurrent Assets	<u>7,343,228</u>		<u>7,343,228</u>
Total Assets	<u>7,581,112</u>	<u>4,011</u>	<u>7,585,123</u>
LIABILITIES			
Current Liabilities:			
Revenue Bonds	9,878		9,878
Financing Obligations	234,338		234,338
Total Current Liabilities	<u>244,216</u>		<u>244,216</u>
Noncurrent Liabilities:			
Revenue Bonds	59,621		59,621
Financing Obligations	686,372		686,372
Total Noncurrent Liabilities	<u>745,993</u>		<u>745,993</u>
Total Liabilities	<u>990,209</u>		<u>990,209</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	6,353,019		6,353,019
Unrestricted	237,884	4,011	241,895
Total Net Assets	<u>\$ 6,590,903</u>	<u>\$ 4,011</u>	<u>\$ 6,594,914</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

ESTILL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009

ESTILL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Functions/Programs Reporting Entity	Expenses	Program Revenues Received			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
General Government	\$ 1,713,412	\$ 15,350	\$ 1,195,903	\$ 223,021	
Protection to Persons and Property	1,370,616	200,753	297,742		852,418
General Health and Sanitation	107,499	173,349			
Social Services	158,225		207,056		
Recreation and Culture	8,223				
Roads	692,296				
Interest on Debt	54,545				
Capital Projects	233,780				12,083
Total Governmental Activities	4,338,596	389,452	1,700,701		1,087,522
Business-type Activities:					
Jail Canteen	11,728	12,845			
Total Business-type Activities	11,728	12,845			
Total Primary Government	\$ 4,350,324	\$ 402,297	\$ 1,700,701	\$ 1,087,522	

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

In Lieu Tax Payments

Licenses and Fees

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (279,138)	\$	\$ (279,138)
(19,703)		(19,703)
65,850		65,850
48,831		48,831
(8,223)		(8,223)
(692,296)		(692,296)
(54,545)		(54,545)
(221,697)		(221,697)
(1,160,921)		(1,160,921)
	1,117	1,117
	1,117	1,117
(1,160,921)	1,117	(1,159,804)
262,452		262,452
2,025		2,025
65,463		65,463
1,194,626		1,194,626
135,615		135,615
35,270		35,270
14,618		14,618
176,373		176,373
1,886,442		1,886,442
725,521	1,117	726,638
5,865,382	2,894	5,868,276
\$ 6,590,903	\$ 4,011	\$ 6,594,914

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

ESTILL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

ESTILL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

	General Fund	Road Fund	Jail Fund	CSEPP Fund
ASSETS				
Cash and Cash Equivalents	\$ 20,783	\$ 3,662	\$ 1,198	\$ 91,977
Total Assets	<u>20,783</u>	<u>3,662</u>	<u>1,198</u>	<u>91,977</u>
LIABILITIES				
Promissory Notes	<u>100,014</u>			
Total Liabilities	<u>100,014</u>			
FUND BALANCES				
Reserved for:				
Encumbrances		4,975	11,135	108,575
Unreserved:				
General Fund	(79,231)			
Special Revenue Funds		(1,313)	(9,937)	(16,598)
Total Fund Balances	<u>(79,231)</u>	<u>3,662</u>	<u>1,198</u>	<u>91,977</u>
Total Liabilities and Fund Balances	<u>\$ 20,783</u>	<u>\$ 3,662</u>	<u>\$ 1,198</u>	<u>\$ 91,977</u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2009
(Continued)

911/CMRS Fund	Non- Major Funds	Total Governmental Funds
\$ 91,391	\$ 28,873	\$ 237,884
91,391	28,873	237,884
		100,014
		100,014
		124,685
		(79,231)
91,391	28,873	92,416
91,391	28,873	137,870
\$ 91,391	\$ 28,873	\$ 237,884

Reconciliation to Statement of Net Assets:

Total Fund Balances	\$ 137,870
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	10,013,134
Accumulated Depreciation	(2,669,906)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(820,696)
Revenue Bonds	(69,499)
Net Assets Of Governmental Activities	<u>\$ 6,590,903</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	General Fund	Road Fund	Jail Fund	CSEPP Fund
REVENUES				
Taxes	\$ 1,524,567	\$	\$	\$
In Lieu Tax Payments	11,478	23,792		
Excess Fees	135,615			
Licenses and Permits	14,618			
Intergovernmental	125,124	973,486	89,660	849,042
Charges for Services	211,917		14,371	
Miscellaneous	492,918	8,950		3,217
Interest	7,974	145	33	
Total Revenues	<u>2,524,211</u>	<u>1,006,373</u>	<u>104,064</u>	<u>852,259</u>
EXPENDITURES				
General Government	818,863			
Protection to Persons and Property	416,716		478,512	858,371
General Health and Sanitation	67,946			
Social Services	145,551			
Recreation and Culture	3,220			
Roads		1,009,830		
Debt Service	169,135	126,084	13,990	
Capital Projects				
Administration	497,385	172,748	80,864	51,725
Total Expenditures	<u>2,118,816</u>	<u>1,308,662</u>	<u>573,366</u>	<u>910,096</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>405,395</u>	<u>(302,289)</u>	<u>(469,302)</u>	<u>(57,837)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	284,061	119,550	467,500	
Transfers To Other Funds	<u>(603,050)</u>	<u>(240,000)</u>		
Total Other Financing Sources (Uses)	<u>(318,989)</u>	<u>(120,450)</u>	<u>467,500</u>	
Net Change in Fund Balances	86,406	(422,739)	(1,802)	(57,837)
Fund Balances - Beginning (Restated)	<u>(165,637)</u>	<u>426,401</u>	<u>3,000</u>	<u>149,814</u>
Fund Balances - Ending	<u>\$ (79,231)</u>	<u>\$ 3,662</u>	<u>\$ 1,198</u>	<u>\$ 91,977</u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

911/CMRS Fund	Non- Major Funds	Total Governmental Funds
\$	\$ 6,410	\$ 1,530,977
		35,270
		135,615
		14,618
	454,606	2,491,918
99,675	3,720	329,683
	12,665	517,750
	136	8,288
<u>99,675</u>	<u>477,537</u>	<u>5,064,119</u>
	18,128	836,991
34,694	127,535	1,915,828
	37,953	105,899
	12,674	158,225
	79,468	82,688
	27,689	1,037,519
		309,209
	233,780	233,780
280	2,853	805,855
<u>34,974</u>	<u>540,080</u>	<u>5,485,994</u>
<u>64,701</u>	<u>(62,543)</u>	<u>(421,875)</u>
	16,000	887,111
<u>(30,000)</u>	<u>(14,061)</u>	<u>(887,111)</u>
<u>(30,000)</u>	<u>1,939</u>	
34,701	(60,604)	(421,875)
56,690	89,477	559,745
<u>\$ 91,391</u>	<u>\$ 28,873</u>	<u>\$ 137,870</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**ESTILL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2009

ESTILL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ (421,875)
--	--------------

Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	773,816
Construction in Progress	551,708
Depreciation Expense	(432,791)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Financing Obligations Principal Payments	245,374
Bond Principal Payments	<u>9,289</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 725,521</u></u>
---	--------------------------

THIS PAGE LEFT BLANK INTENTIONALLY

ESTILL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

ESTILL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 4,011
Total Current Assets	<u>4,011</u>
Net Assets	
Unrestricted	4,011
Total Net Assets	<u><u>\$ 4,011</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 12,845
Total Operating Revenues	<u>12,845</u>
Operating Expenses	
Cost of Sales	6,500
Recreational	3,835
Miscellaneous	<u>1,393</u>
Total Operating Expenses	<u>11,728</u>
Operating Income	<u>1,117</u>
Change In Net Assets	1,117
Total Net Assets - Beginning	<u>2,894</u>
Total Net Assets - Ending	<u><u>\$ 4,011</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

ESTILL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

ESTILL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 12,845
Cost of Sales	(6,500)
Recreational Costs	(3,835)
Miscellaneous	(1,393)
Net Cash Provided By Operating Activities	<u>1,117</u>
Net Increase in Cash and Cash Equivalents	1,117
Cash and Cash Equivalents - July 1, 2008	<u>2,894</u>
Cash and Cash Equivalents - June 30, 2009	<u><u>\$ 4,011</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	Jail Canteen Fund
Operating Income	<u>\$ 1,117</u>
Net Cash Provided By Operating Activities	<u><u>\$ 1,117</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	37
NOTE 2.	DEPOSITS	42
NOTE 3.	CAPITAL ASSETS	43
NOTE 4.	SHORT-TERM DEBT	44
NOTE 5.	LONG-TERM DEBT	44
NOTE 6.	EMPLOYEE RETIREMENT SYSTEM	48
NOTE 7.	DEFERRED COMPENSATION	48
NOTE 8.	INSURANCE	49
NOTE 9.	PRIOR PERIOD ADJUSTMENTS	49
NOTE 10.	DEFICIT FUND BALANCE	49

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Estill County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

C. Estill County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Estill County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Estill County, Kentucky.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Estill County Elected Officials (Continued)

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and enterprise funds are reported as separate columns in the financial statements.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Chemical Stockpile Emergency Preparedness Program (CSEPP) Fund – The primary purpose of this fund is to account for federal CSEPP grant monies, which is the only source of revenue for this fund. Estill County is part of a ten county region in Kentucky that receives federal grant monies to mitigate disasters associated with the Bluegrass Army Depot's chemical stockpile located in neighboring Madison County. The Department for Local Government and the federal government require the fiscal court to maintain these receipts and expenditures separately from the General Fund.

911/CMRS Fund - The primary purpose of this fund is to account for surcharge taxes for Commercial Mobile Radio Systems (CMRS). The state distributes CMRS monies to counties to supplement 911 operations. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: Local Government Economic Assistance (LGEA) Fund, State Grants Fund, EM Tower Fund, Search/Rescue Fund, Homeland Security Fund, Planning/Prep Fund, Emergency Management Fund, and CERT Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance (LGEA) Fund, State Grants Fund, CSEPP Fund, 911/CMRS Fund, EM Tower Fund, Homeland Security Fund, Planning/Prep Fund, Emergency Management Fund, and CERT Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 10,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	5-10
Infrastructure	\$ 10,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements for KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 645,000	\$	\$	\$ 645,000
Construction In Progress	110,245	551,708		661,953
Total Capital Assets Not Being Depreciated	755,245	551,708		1,306,953
Capital Assets, Being Depreciated:				
Buildings	2,432,503	169,208		2,601,711
Equipment	2,082,448	124,313		2,206,761
Vehicles	1,180,548			1,180,548
Infrastructure	2,236,866	480,295		2,717,161
Total Capital Assets Being Depreciated	7,932,365	773,816		8,706,181
Less Accumulated Depreciation For:				
Buildings	(615,937)	(70,597)		(686,534)
Equipment	(878,612)	(147,331)		(1,025,943)
Vehicles	(513,806)	(55,300)		(569,106)
Infrastructure	(228,760)	(159,563)		(388,323)
Total Accumulated Depreciation	(2,237,115)	(432,791)		(2,669,906)
Total Capital Assets, Being Depreciated, Net	5,695,250	341,025		6,036,275
Government Activities Capital Assets, Net	\$ 6,450,495	\$ 892,733	\$ 0	\$ 7,343,228

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 70,566
Protection to Persons and Property	166,475
General Health and Sanitation	1,600
Recreation and Culture	1,606
Roads, Including Depreciation of General Infrastructure Assets	192,544
Total Depreciation Expense - Governmental Activities	\$ 432,791

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Short-term Debt

- A. On June 29, 2006, Estill County entered into a short term borrowing agreement with Citizens Guaranty Bank in the amount of \$100,119 for operating expenses. The agreement required one payment for the total outstanding due July 10, 2007. The county paid principal amounts totaling \$215, leaving a principal balance of \$99,904 as of June 30, 2007. On July 10, 2007 the county renewed this borrowing agreement in the amount of \$99,954 maturing on July 10, 2008. On July 10, 2008 the county again renewed this borrowing agreement in the amount of \$100,014 maturing on July 20, 2009. The principal balance of this note was \$100,014 as of June 30, 2009.
- B. On December 7, 2007, Estill County entered into a capital lease agreement with Kentucky Association of Counties for the purpose of financing the purchase of a truck classified as held for sale. The principal amount of the lease was \$98,925 with repayment to be made on December 20, 2008. The county is to pay interest monthly. No principal balance was due as of June 30, 2009.
- C. On June 12, 2008, Estill County entered into a short-term promissory note with Citizens Guaranty Bank in the amount of \$100,182 for operating expenses. The note requires monthly payments of \$8,577 to be paid in full on June 20, 2009. No principal balance was due as of June 30, 2009.
- D. Changes In Short-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 299,061	\$ 60	\$ 199,107	\$ 100,014	\$ 100,014
Short-term Liabilities	<u>\$ 299,061</u>	<u>\$ 60</u>	<u>\$ 199,107</u>	<u>\$ 100,014</u>	<u>\$ 100,014</u>

Note 5. Long-term Debt

A. Refinancing Lease Agreement

On December 31, 2004, Estill County entered into a \$260,000 lease agreement with Kentucky Association of Counties. The purpose of this lease was to retire a portion of the county's outstanding debt. As of June 30, 2009, the principal outstanding was \$102,225. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2010	\$ 38,364	\$ 3,561
2011	39,855	2,128
2012	24,006	484
Totals	<u>\$ 102,225</u>	<u>\$ 6,173</u>

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

B. Refinancing Lease Agreement

On December 31, 2004, Estill County entered into an \$825,000 lease agreement with Kentucky Association of Counties. The purpose of this lease was to retire a portion of the county's outstanding debt. As of June 30, 2009, the principal outstanding was \$618,569. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 48,233	\$ 23,671
2011	49,702	22,665
2012	51,758	20,627
2013	53,899	18,475
2014	56,128	16,244
2015-2019	317,447	44,379
2020	41,402	808
Totals	<u>\$ 618,569</u>	<u>\$ 146,869</u>

C. Tractor/Mower

On August 20, 2005, Estill County entered into a \$50,000 lease agreement with Kentucky Association of Counties. The purpose of this lease was for the purchase of a tractor/mower. This is a five-year lease, which requires annual principal payments of \$10,000 and monthly interest and fee payments. As of June 30, 2009, the principal outstanding was \$20,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 10,000	\$ 635
2011	10,000	52
Totals	<u>\$ 20,000</u>	<u>\$ 687</u>

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

D. Case Backhoe

On June 29, 2006, Estill County entered into a five-year lease for \$67,149 with Citizens Guaranty Bank. The purpose of this lease was for the purchase of a Case backhoe. This is a five-year lease, which requires annual principal and interest payments. As of June 30, 2009, the principal outstanding was \$27,741. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 13,478	\$ 1,617
2011	14,263	831
Totals	<u>\$ 27,741</u>	<u>\$ 2,448</u>

E. 911 Upgrade

On June 29, 2006, Estill County entered into a five-year lease for \$115,419 with Citizens Guaranty Bank. The purpose of this lease was for upgrading the county's 911 system. This is a five-year lease, which requires monthly principal and interest payments. As of June 30, 2009, the principal outstanding was \$52,161. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 24,248	\$ 2,401
2011	25,701	949
2012	2,212	11
Totals	<u>\$ 52,161</u>	<u>\$ 3,361</u>

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

F. Jail - Long Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority (KLCFCA), an independent corporation agency and instrumentality of Kentucky, issued revenue bonds in the amount of \$206,362 for the purpose of constructing a jail facility. On April 1, 1987, the fiscal court subsequently entered into a lease and participation agreement with KLCFCA for \$206,362 principal plus interest on the issue. The principal amount outstanding as of June 30, 2009 was \$69,499. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 9,878	\$ 4,093
2011	10,505	3,447
2012	11,171	2,760
2013	11,879	2,029
2014	12,632	1,252
2015	13,434	426
Totals	<u>\$ 69,499</u>	<u>\$ 14,007</u>

G. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 78,788	\$	\$ 9,289	\$ 69,499	\$ 9,878
Financing Obligations	967,144		146,448	820,696	134,324
Governmental Activities					
Long-term Liabilities	<u>\$ 1,045,932</u>	<u>\$</u>	<u>\$ 155,737</u>	<u>\$ 890,195</u>	<u>\$ 144,202</u>

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.5 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

On February 24, 2000, the Estill County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 8. Insurance

For the fiscal year ended June 30, 2009, Estill County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Prior Period Adjustments

The prior year fund balances for the General Fund, Jail Fund, State Grants Fund and CSEPP Fund have been restated by \$6, \$2,229, \$99, and \$8,917, respectively, due to prior year voided checks. Beginning net assets of the governmental activities has been restated in total by \$11,251. The beginning balance was increased by the total voided checks above.

Note 10. Deficit Fund Balance

The General Fund had a fund balance deficit resulting from short-term borrowing by the fiscal court to meet operating needs.

THIS PAGE LEFT BLANK INTENTIONALLY

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2009

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,528,219	\$ 1,528,219	\$ 1,524,567	\$ (3,652)
In Lieu Tax Payments		3,442	11,478	8,036
Excess Fees	12,188	135,615	135,615	
Licenses and Permits	14,500	14,500	14,618	118
Intergovernmental Revenue	101,820	114,955	125,124	10,169
Charges for Services	192,206	194,486	211,917	17,431
Miscellaneous	425,539	473,475	492,918	19,443
Interest	1,160	8,067	7,974	(93)
Total Revenues	2,275,632	2,472,759	2,524,211	51,452
EXPENDITURES				
General Government	574,647	825,765	818,863	6,902
Protection to Persons and Property	567,447	504,882	416,716	88,166
General Health and Sanitation	64,500	68,581	67,946	635
Social Services	205,853	145,652	145,551	101
Recreation and Culture	2,000	3,220	3,220	
Debt Service	267,000	269,317	269,317	
Administration	478,023	501,984	497,385	4,599
Total Expenditures	2,159,470	2,319,401	2,218,998	100,403
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	116,162	153,358	305,213	151,855
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds			60	60
Transfers From Other Funds	166,270	166,270	284,061	117,791
Transfers To Other Funds	(348,852)	(348,852)	(603,050)	(254,198)
Total Other Financing Sources (Uses)	(182,582)	(182,582)	(318,929)	(136,347)
Net Changes in Fund Balance	(66,420)	(29,224)	(13,716)	15,508
Fund Balance - Beginning (Restated)	25,000	34,453	34,499	46
Fund Balance - Ending	\$ (41,420)	\$ 5,229	\$ 20,783	\$ 15,554

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 10,500	\$ 10,500	\$ 23,792	\$ 13,292
Intergovernmental Revenue	1,095,142	1,095,142	973,486	(121,656)
Miscellaneous	15,000	15,000	8,950	(6,050)
Interest	200	200	145	(55)
Total Revenues	<u>\$ 1,120,842</u>	<u>\$ 1,120,842</u>	<u>\$ 1,006,373</u>	<u>\$ (114,469)</u>
EXPENDITURES				
Roads	765,301	1,107,333	1,009,830	97,503
Debt Service	90,434	188,434	126,084	62,350
Capital Projects	120,000	47,243		47,243
Administration	165,107	200,682	172,748	27,934
Total Expenditures	<u>1,140,842</u>	<u>1,543,692</u>	<u>1,308,662</u>	<u>235,030</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(20,000)</u>	<u>(422,850)</u>	<u>(302,289)</u>	<u>120,561</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	166,200	166,200	119,550	(46,650)
Transfers To Other Funds	<u>(166,200)</u>	<u>(166,200)</u>	<u>(240,000)</u>	<u>(73,800)</u>
Total Other Financing Sources (Uses)			<u>(120,450)</u>	<u>(120,450)</u>
Net Changes in Fund Balance	(20,000)	(422,850)	(422,739)	111
Fund Balance - Beginning	<u>20,000</u>	<u>426,401</u>	<u>426,401</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 3,551</u>	<u>\$ 3,662</u>	<u>\$ 111</u>

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 174,000	\$ 174,000	\$	\$ (174,000)
Intergovernmental Revenue	94,000	102,689	89,660	(13,029)
Charges for Services	64,035	64,035	14,371	(49,664)
Miscellaneous	6,300	6,300		(6,300)
Interest	100	100	33	(67)
Total Revenues	338,435	347,124	104,064	(243,060)
EXPENDITURES				
Protection to Persons and Property	356,280	519,891	478,512	41,379
Debt Service	15,650	14,750	13,990	760
Administration	108,567	184,063	80,864	103,199
Total Expenditures	480,497	718,704	573,366	145,338
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(142,062)	(371,580)	(469,302)	(97,722)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	182,582	360,000	467,500	107,500
Total Other Financing Sources (Uses)	182,582	360,000	467,500	107,500
Net Changes in Fund Balance	40,520	(11,580)	(1,802)	9,778
Fund Balance - Beginning (Restated)	900	3,000	3,000	
Fund Balance - Ending	\$ 41,420	\$ (8,580)	\$ 1,198	\$ 9,778

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

CSEPP FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenues	\$ 2,839,237	\$ 2,839,237	\$ 849,042	\$ (1,990,195)
Miscellaneous		3,072	3,217	145
Total Revenues	2,839,237	2,842,309	852,259	(1,990,050)
EXPENDITURES				
Protection to Persons and Property	2,776,737	2,816,737	858,371	1,958,366
Administration	62,500	175,386	51,725	123,661
Total Expenditures	2,839,237	2,992,123	910,096	2,082,027
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		(149,814)	(57,837)	91,977
Net Changes in Fund Balances		(149,814)	(57,837)	91,977
Fund Balances - Beginning (Restated)		149,814	149,814	
Fund Balances - Ending	\$ 0	\$ 0	\$ 91,977	\$ 91,977

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	911/CMRS Fund			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Charges for Services	\$ 72,139	\$ 75,407	\$ 99,675	\$ 24,268
Total Revenues	72,139	75,407	99,675	24,268
EXPENDITURES				
Protection to Persons and Property	40,000	39,900	34,694	5,206
Administration	32,139	92,197	280	91,917
Total Expenditures	72,139	132,097	34,974	97,123
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		(56,690)	64,701	121,391
OTHER FINANCING SOURCES (USES)				
Transfers Out to Other Funds			(30,000)	(30,000)
Total Other Financing Sources (Uses)			(30,000)	(30,000)
Net Changes in Fund Balances		(56,690)	34,701	91,391
Fund Balances - Beginning		56,690	56,690	
Fund Balances - Ending	\$ 0	\$ 0	\$ 91,391	\$ 91,391

ESTILL COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of Required Supplementary Information to Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.

Reconciliation of General Fund

Total Expenditures - Budgetary Basis	2,218,998
Short-term Debt Payments	<u>(100,182)</u>
Total Expenditures - Modified Cash Basis	<u>\$ 2,118,816</u>
Total Other Financing Sources (Uses) - Budgetary Basis	(318,929)
Short-term Debt Proceeds	<u>(60)</u>
Total Other Financing Sources (Uses) - Modified Cash Basis	<u>\$ (318,989)</u>
Fund Balance- Ending - Budgetary Basis	20,783
Outstanding Liabilities	<u>(100,014)</u>
Fund Balance - Ending - Modified Cash Basis	<u>\$ (79,231)</u>

ESTILL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

ESTILL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

	LGEA Fund	State Grants Fund	EM Tower Fund	Search/ Rescue Fund
ASSETS				
Cash and Cash Equivalents	\$ 909	\$ 2,436	\$ 11,367	\$ 3,376
Total Assets	<u>909</u>	<u>2,436</u>	<u>11,367</u>	<u>3,376</u>
FUND BALANCES				
Unreserved:				
Special Revenue Funds	<u>909</u>	<u>2,436</u>	<u>11,367</u>	<u>3,376</u>
Total Fund Balances	<u>\$ 909</u>	<u>\$ 2,436</u>	<u>\$ 11,367</u>	<u>\$ 3,376</u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2009
(Continued)

Homeland Security Fund	Planning/ Prep Fund	Emergency Management Fund	CERT Fund	Total Non-Major Governmental Funds
<u>\$ 13</u>	<u>\$ 2,500</u>	<u>\$ 2,522</u>	<u>\$ 5,750</u>	<u>\$ 28,873</u>
<u>13</u>	<u>2,500</u>	<u>2,522</u>	<u>5,750</u>	<u>28,873</u>
<u>13</u>	<u>2,500</u>	<u>2,522</u>	<u>5,750</u>	<u>28,873</u>
<u>\$ 13</u>	<u>\$ 2,500</u>	<u>\$ 2,522</u>	<u>\$ 5,750</u>	<u>\$ 28,873</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

ESTILL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009

ESTILL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

	LGEA Fund	State Grants Fund	EM Tower Fund	Search/ Rescue Fund
REVENUES				
Taxes	\$ 6,410	\$	\$	\$
Intergovernmental	98,518	340,629		3,376
Charges for Services			3,720	
Miscellaneous		12,665		
Interest	102		34	
Total Revenues	<u>105,030</u>	<u>353,294</u>	<u>3,754</u>	<u>3,376</u>
EXPENDITURES				
General Government	17,294	834		
Protection to Persons and Property	24,194	103,306		
General Health & Sanitation	16,265	21,688		
Social Services	12,674			
Recreation and Culture	3,397	76,071		
Roads	27,689			
Capital Projects		233,780		
Administration	2,649	204		
Total Expenditures	<u>104,162</u>	<u>435,883</u>		
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>868</u>	<u>(82,589)</u>	<u>3,754</u>	<u>3,376</u>
Other Financing Sources (Uses)				
Transfers From Other Funds		16,000		
Transfers To Other Funds		(4,500)		
Total Other Financing Sources (Uses)		<u>11,500</u>		
Net Change in Fund Balances	868	(71,089)	3,754	3,376
Fund Balances - Beginning (Restated)	41	73,525	7,613	
Fund Balances - Ending	<u>\$ 909</u>	<u>\$ 2,436</u>	<u>\$ 11,367</u>	<u>\$ 3,376</u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

Other Supplementary Information

For The Year Ended June 30, 2009

(Continued)

Homeland Security Fund	Planning/ Prep Fund	Emergency Management Fund	CERT Fund	Total Non-Major Governmental Funds
\$	\$	\$	\$	\$
		12,083		6,410
				454,606
				3,720
				12,665
				136
		12,083		477,537
				18,128
35				127,535
				37,953
				12,674
				79,468
				27,689
				233,780
-				2,853
35				540,080
(35)		12,083		(62,543)
				16,000
		(9,561)		(14,061)
		(9,561)		1,939
(35)		2,522		(60,604)
48	2,500		5,750	89,477
\$ 13	\$ 2,500	\$ 2,522	\$ 5,750	\$ 28,873

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

ESTILL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ESTILL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2009

Federal Grantor				
Program Title	Federal			
Grant Name	CFDA #	Grant Number	Expenditures	
<hr/>				
U.S Department of Homeland Security				
<i>Passed through KY Office of Homeland Security and</i>				
<i>KY Department of Military Affairs</i>				
Chemical Stockpile Emergency Preparedness Program	97.040	PON2 08000078851	\$	910,096
Federal Emergency Management Agency -1818	97.036	PON2 09000128071		114,326
Federal Emergency Management Agency	97.036	n/a		<hr/> 12,083
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$	<hr/>1,036,505<hr/>

ESTILL COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2009

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Estill County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



The Honorable Wallace Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Estill County, Kentucky as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements and have issued our report thereon dated November 30, 2009. Estill County prepares its financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Estill County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Estill County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Estill County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies 2009-3, 2009-4, 2009-5, and 2009-6 described in the accompanying schedule of findings and questioned costs, to be significant deficiencies in internal control over financial reporting.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above as item 2009-6 to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Estill County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and are included in the accompanying schedule of findings and questioned costs as items 2009-1, and 2009-2.

Estill County's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit the officials' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Estill County Fiscal Court, the Department for Local Government, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Simon, Underwood & Associates PSC

November 30, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



*Simon,
Underwood &
Associates* PSC

Certified Public Accountants and Consultants

The Honorable Wallace Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

Report on Compliance With Requirements
Applicable To Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Estill County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2009. Estill County's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Estill County's management. Our responsibility is to express an opinion on Estill County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Estill County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Estill County's compliance with those requirements.

In our opinion, Estill County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2009-7.

Internal Control Over Compliance

The management of Estill County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Estill County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Estill County's internal control over compliance.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that a noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2009-8 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. However, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

Estill County's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit the responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Estill County Fiscal Court, the Department for Local Government, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Simon, Underwood & Associates PSC

November 30, 2009

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2009

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Estill County, Kentucky.
2. Four significant deficiencies relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report, one is considered to be a material weakness.
3. Two instances of noncompliance material to the financial statements of Estill County were disclosed during the audit.
4. One significant deficiency relating to the audit of the major federal awards program is reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards program for Estill County expresses an unqualified opinion.
6. There are two audit findings relative to the major federal awards program for Estill County reported in Part C of this schedule.
7. The program tested as a major program was: Chemical Stockpile Emergency Preparedness Program (CFDA #97.040)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Estill County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

NONCOMPLIANCE

2009-1 The Fiscal Court Did Not Account For Encumbrances And Unpaid Obligations

The county did not report encumbrances on the fourth quarter financial statement that was provided to the Department for Local Government (DLG) and auditors. During expenditures testing, auditors noted invoices were being paid late. Based on information gathered, auditors reviewed invoices paid during July 2009 to determine the amount the county encumbered as liabilities to fiscal year 2009 for report presentation in the financial statements. Based on our calculations, the Road Fund had encumbrances of \$4,975, the Jail Fund had encumbrances of \$11,135, and the CSEPP Fund had \$108,575 of encumbrances. The county did not have the available cash balance to pay for the encumbrances for the Jail Fund. We recommend the county report all encumbrances by including all outstanding liabilities at the end of the fiscal year on the fourth quarter financial statement. They should maintain a list of these encumbrances. The county should not encumber more than the available cash balance in each fund.

County Judge/Executive's Response: This is being corrected during fiscal year 09/10.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2009
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

NONCOMPLIANCE (Continued)

2009-2 The Fiscal Court Did Not Approve A Salary Schedule

A salary schedule for all county employees was not presented to the Fiscal Court for approval. KRS 64.530 says, "The fiscal court of each county shall fix the compensation of every county officer and employee." We recommend the Fiscal Court approve a salary schedule.

County Judge/Executive's Response: Has been put in place this year.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES

2009-3 The Fiscal Court Lacks Adequate Segregation Of Duties For Occupational Tax Collections

The County lacks adequate segregation of duties for occupational tax collections. One individual is responsible for receiving, depositing, posting, and reconciling all occupational tax receipts. By delegating all of these functions to one individual, the county is increasing the risk that material misstatements will occur and go undetected. Occupational tax receipts account for 36% of General Fund receipts, which is a significant portion of revenues that are at high risk. We recommend the county separate the functions of receiving, depositing, and posting occupational tax receipts to at least two separate individuals.

County Judge/Executive's Response: I put in front of the fiscal court a plan they turned down but we have made other changes.

2009-4 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts

During our review of internal controls, we noted the Treasurer posts to the receipts ledger, prepares bank deposit, prepares bank reconciliations, and prepares financial reports. We recommend controls be implemented to segregate the collecting and data preparation responsibilities from the recording and reconciling responsibilities.

County Judge/Executive's Response: We are currently changing that all checks are scanned. The Judge's office does that.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2009
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES
(Continued)

2009-5 The Fiscal Court's Interfund Transfers Did Not Agree To Approved Amounts

The Treasurer presents a list of interfund transfers to the fiscal court at every regular meeting. All of the transfer transactions were tested, the majority of the transfers did not agree to the amount and funds approved in the fiscal court minutes. Therefore, the risk that material misstatements will occur is higher as is the risk that errors will occur and go undetected. We recommend that all interfund transfers agree exactly to the amounts and funds presented to the fiscal court for approval. Any discrepancies and/or changes need to be submitted to the fiscal court for approval. The Instructional Guide For County Budget Preparation and State Local Finance Officer Policy Manual states that all cash transfers require a court order and Fiscal Court approval. Cash transfers impact the receipts and expenditures of the county and should be reviewed and approved by the Fiscal Court. Therefore, we recommend the Fiscal Court review and approve all transfers.

County Judge/Executive's Response: We will have better oversight.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY & MATERIAL WEAKNESS

2009-6 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically

The county did not have a completed capital asset schedule for fiscal year ended June 30, 2009. A list of capital asset additions, retirements and disposals were not properly maintained. In addition, assets were retired or disposed of without maintaining proper documentation. A schedule of additions should be maintained as assets are purchased to simplify the process of updating the capital asset schedule. The schedule should include the date the asset is acquired, a description of the asset, the vendor name, and the amount. Invoices for asset acquisition and invoices for all other disbursements should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors. Furthermore, we believe that the capital asset listing should be monitored and maintained on a regular basis. As new assets are acquired they should be added to the listing. As equipment is retired or disposed of it should be removed from the listing. We recommend that the County maintain complete and accurate capital asset schedules and records to comply with GASB 34 requirements.

The Fiscal Court should take a physical inventory of its capital assets on a regular basis (such as every two to three years) or at the beginning of a new administration to ensure only active, in-service machinery and equipment is included on the County's financial statements. We also recommend that the County implement policies that will identify and track additions, retirements and disposed assets for the purpose of the capital asset schedule. These procedures will ensure that fixed assets are properly stated and that depreciation is being calculated accurately.

County Judge/Executive's Response: Working on improving.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2009
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

NONCOMPLIANCE

Federal Program: CFDA# 97.040 - Chemical Stockpile Emergency Preparedness Program

Federal Agency: Department of Homeland Security

Pass-Through Agency: Commonwealth of Kentucky

Compliance: Activities allowed or unallowed, Allowable costs/cost principles.

Amount of Questioned Costs: \$29,918

2009-7 The Fiscal Court Did Not Make Timely Payments To Vendors And Did Not Approve Grant Expenditures Properly

Out of 85 expenditures tested, totaling \$1,619,380, auditors found 11 expenditures totaling \$411,598 were not paid within 30 working days. Of the \$411,598, items totaling \$29,918 did not have supporting documentation which related to pass-through grant monies. KRS 65.140(2) requires expenditures to be paid in full within 30 working days of receiving vendor invoices. KRS 65.140(2) requires expenditures to be paid in full within 30 working days of receiving vendor invoices. It continues to state that if a payment of invoices exceeds 30 days, a 1 % interest penalty should be added. The fiscal court did not comply with KRS 65.140(2) and could be subject to additional interest. We recommend fiscal court pay all expenditures within 30 days unless the Fiscal Court tables the item for review and this action is recorded in the minutes as required by KRS 65.140(2) and the county attorney review the expenditures paid untimely to determine if additional money is owed. In addition, grant expenditures should be monitored closely to ensure compliance with laws, regulations, and terms of the grant agreements. Failure by the fiscal court to properly review and approve expenditures associated with grants perpetuates the risk that improper grant expenditures may be made and, as a consequence, the County could potentially lose grant funding.

County Judge/Executive's Response: This was reported on last audit and has been corrected.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY

Federal Program: CFDA# 97.040 - Chemical Stockpile Emergency Preparedness Program

Federal Agency: Department of Homeland Security

Pass-Through Agency: Commonwealth of Kentucky

Compliance: All applicable areas.

Amount of Questioned Costs: \$0

2009-8 The Fiscal Court Should Improve Controls Over Grants

During the test of grants the following items were noted: 1) No formal process exists to ensure that copies of all grant agreements are maintained on file with the fiscal Court. 2) The lack of information provided to the County Treasurer makes it difficult for them to know the status of some grants (open, closed, etc.) and 3) The County Treasurer is unable to provide the accurate "expenditure" amount to be used for the schedule of federal expenditures.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2009
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY (Continued)

2009-8 The Fiscal Court Should Improve Controls Over Grants

(Continued)

We recommend that the Fiscal Court appoint a grant administrator and obtain grant agreements for all grants that the County receives funds for, even those that are pass-through grants. We also recommend that the Grant Administrator maintains a monthly status report for each grant. We further recommend that the Grant Administrator creates an excel spreadsheet for each grant listing the monies received and the expenditures paid in order to be able to complete the schedule of federal expenditures, reconcile all actual grant funds to grant budgets and monitor allowable and allocable expenditures by grant type.

County Judge/Executive's Response: The Treasurer has access to all information. Our office has a current status of all grants.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

2008-9 Fiscal Court Did Not Make Timely Payments To Vendors And Did Not Approve Grant Expenditures Properly

This comment has been repeated in the current year as comment 2009-7.

2008-10 Fiscal Court Should Improve Controls Over Grants

This comment has been repeated in the current year as comment 2009-8.

THIS PAGE LEFT BLANK INTENTIONALLY

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

ESTILL COUNTY FISCAL COURT


**For The Fiscal Year Ended
June 30, 2009**

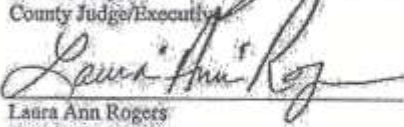
Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
ESTILL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2009

The Estill County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Wallace Taylor
County Judge/Executive


Laura Ann Rogers
County Treasurer

